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SUBJECT: Georgia Bi-Weekly Update April 20

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¶1. This cable contains current items of political, economic, and social interest concerning Georgia during the weeks of April 7-20.

#### Controversy over Border Monastery

¶2. A longstanding controversy over the border with Azerbaijan -- and specifically over the David Gareji cave monastery complex on the Georgian side -- came to the fore during the past week, following controversial statements by officials in both countries. Azerbaijani Deputy Foreign Minister Khalap Khalapov was quoted referring to David Gareji as an Albanian monastery that "Baku would not give up." Then Georgian Minister of Culture Goka Gabashvili proposed establishing a "free tourist zone" on the territory of the monastery to be shared by both sides. Khalapov's statement produced an angry response from Georgian Foreign Minister Gela Bezhuashvili, who said Khalapov should "read up on world history." Gabashvili's initiative triggered an equally angry reaction from the Georgian Orthodox Church, and led some opposition figures to accuse the government of trading a Georgian monument for Azerbaijani gas.

#### Armenian Language and Election Draw Crowds

¶3. Protesters in Akhalkalaki, an area with a large ethnic Armenian population, called April 14 for the Armenian language to receive the status of administrative language of the Samtskhe-Javakheti region, which would permit all official business to be conducted in Armenian. The protest was reportedly organized by local nationalist parties Javakhk and Virk. At the same time, several candidates in May's Armenian parliamentary elections visited Akhalkalaki to underline their family roots in the area and to promote their candidacies among locals with relatives in Armenia.

#### Conservative Party Calls for New National Day

¶4. Conservative Party leader Zviad Dzidziguri called for April 9 to be designated Georgian independence day, replacing the current date of May 26 -- the day Georgia proclaimed its independence in 1918. April 9 is the date of Georgia's 1991 independence declaration, under Zviad Gamsakhurdia, and was also the date of a 1989 massacre in which Russian troops killed 20 demonstrators in Tbilisi. The date is associated with Gamsakhurdia in the public mind, and Dzidziguri, a former Gamsakhurdia ally, may have been appealing to residual public support for Georgia's first president. In response to the proposal, Speaker Burjanadze noted that people are accustomed to celebrating on May 26.

#### Batumi Booming

¶5. Economic development in Batumi continues to boom. During an April 6-9 visit, Poloff stayed in the comfortable and renovated Intourist Hotel, noted the opening of many new restaurants and cafes in the last year, and saw an increased use of the newly refurbished boardwalk along the coast -- which was peppered with walkers, joggers, and tourists. The improvement continues with the visible construction of a line of hotels along the coast as well as freshly (and colorfully) painted buildings in town. As Poloff heard from a

local artist working on a mural at the hotel, employment remains an issue, but the signs of improvement and economic growth seem more visible here than any other part of the country except perhaps Tbilisi.

#### Foreign Direct Investment Skyrockets

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¶6. According to the government's newly released foreign direct investment (FDI) statistics, Georgia made impressive progress over the past year. FDI more than doubled in 2006, reaching USD 1.14 billion, up from USD 450 million in 2005. The U.K., the U.S. and Kazakhstan were the top three investors with USD 182 million, USD 181.9 million and USD 152 million respectively, followed by Turkey, Norway and Azerbaijan. Russia with USD 27.8 took eleventh place in the list, much lower than in 2005 (USD 38.7). Prime Minister Zurab Noghaidei said FDI was expected to reach USD 1.5-1.7 billion in ¶2007. The new figures raised the eyebrows of many analysts, who questioned the reliability of the data, especially with regard to the U.S. and U.K. numbers. In fact, we understand that the U.S. investment figures were inflated by the USD 130 million stock offering by the Bank of Georgia on the London Stock Exchange. The market maker for the stock was a New York bank, hence the investment was counted in favor of the United States.

#### Products from the Conflict Zone

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¶7. On April 17, the Parliamentary Commission on Territorial Integrity, chaired by MP Shota Malashkhia, gave a presentation on the current status of a proposal to spur economic develop in the South Ossetia conflict zone (reftel). The project, called "Product from the Conflict Zone," envisages support for income-generating activities in the conflict zone and creation of a special market both inside and outside the zone for manufactured products. The overall goal is to promote peaceful resolution of the conflict through economic cooperation between the Georgian and Ossetian

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sides. According to Malashkhia, the program would be piloted in the Georgian-controlled territories, where specially designed small plants could process raw material -- fruit, timber, mineral water -- into a finished product.

#### Energy Regulator to be Abolished

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¶8. Acting on the recommendation of State Minister for Economic Reforms Kakha Bendukidze, the government has submitted legislation to Parliament that would transform the independent State Agency for Regulation of Oil and Gas Resources (SAROG) into a sub-departmental body under the Energy Ministry. The Agency was set up in 1999 with USAID support to administer oil and gas legislation and to exercise authority in the granting and enforcement of agreements with investors. Under the draft law, responsibility for agreements would be assigned to Georgia's Oil and Gas Corporation, and other functions would be allotted to different governmental structures.

#### New Head of Georgian National Investment Agency

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¶9. Irakli Beraia, the new head of the Georgian National Investment Agency (GNIA), told us April 19 that he plans to restructure the agency to attract foreign investors to local industrial, tourism, agriculture and forestry sectors. Beraia admitted that, in some cases, foreign investors face unfair treatment due to the lack of an independent judiciary. He believes that foreign investors in Georgia should have stronger guarantees for their rights and should enjoy equal opportunities during privatization process. Beraia expressed readiness to support the development and implementation of the Trade and Investment Framework Agreement (TIFA), and was quite interested in U.S. programs administered by OPIC, USTDA, and Ex-Im Bank. Prior to his appointment, Beraia worked as a head of the Western Georgian Office of the Red Cross and then completed studies at a diplomatic academy in the U.K.

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